



# Managerial Economics Business Administration 653

Spring 2007

College of Business Administration  
San Diego State University

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<b>Instructor</b>	Dr. David Ely Office: SS 3306 Phone: 619.594.6842 Fax: 619.594.3272 Email: <a href="mailto:david.ely@sdsu.edu">david.ely@sdsu.edu</a> Internet: <a href="http://www-rohan.sdsu.edu/~elyweb/">http://www-rohan.sdsu.edu/~elyweb/</a> Office Hours: W 1300 – 1500 and by appointment
<b>Course Objective</b>	Learn to apply microeconomic concepts and analytical tools to managerial pricing and resource allocation decision making.
<b>Primary Learning Outcomes</b>	After completing this course, you should be able to: <ul style="list-style-type: none"><li>• Identify, gather, and analyze evidence about demand conditions and price elasticities to develop pricing policies and strategies</li><li>• Judge whether a firm is employing the optimal mix of inputs.</li><li>• Identify and analyze a firm's economic costs</li><li>• Determine the existence of economies of scale and scope and assess their impact on a firm's competitive position</li><li>• Evaluate pricing and other competitive strategies in the context of the structure of a firm's market</li></ul>
<b>Course Prerequisites</b>	Recall of material covered in the mathematics and economics prerequisites for SDSU graduate business programs
<b>Required materials</b>	<i>Managerial Economics</i> , William F. Samuelson and Stephen G. Marks, 5th edition, Wiley.  Readings for BA 653 (Available at Aztec Shops)
<b>Optional Material</b>	Study Guide for Samuelson/Marks textbook
<b>Blackboard</b>	“Blackboard” is the course management system used at SDSU. In addition to posting material, we will use the discussion board and grade book features of the system. You can also link to streaming videos of selected material from class lectures (located in the Course Documents section of Bb). To access, go to <a href="http://blackboard.sdsu.edu">http://blackboard.sdsu.edu</a>
<b>Use of Class Time</b>	Class time will be devoted to lectures, problem solving, and discussion. You should read assigned text chapters prior to class meetings.

## Assessment

Course grades will be assigned in accordance with San Diego State University policy (see Graduate Bulletin, pp. 30-32). Your course grade will be based on five components with the following weights:

Term Project	30
Graded Homework	10
Online quizzes	5
Midterm Exam	25
Final Exam	30

Each component will be assigned a letter grade. The course grade will be based on the following distribution of the weighted average of the 5 components.

A	3.80-4.00	C	1.85-2.14
A-	3.50-3.79	C+	2.15-2.49
B+	3.15-3.49	C-	1.50-1.84
B	2.85-3.14	D+	1.15-1.49
B-	2.50-2.84	D	0.85-1.14
		F	0.00-0.84

### Exams

The midterm and final examinations will cover material both from the textbook and from lectures. They will be comprised of problems, short-answer, and essay questions. In-class exams are closed-book and closed-notes. Final exams will be retained.

### Term Project

The objectives of this assignment are to (1) gain practice applying microeconomic theory and (2) to become familiar with sources of economic and financial market information. This is an individual assignment and is described below.

### Graded Homework

A set of homework questions will be assigned on readings posted on Blackboard. Solutions to these will be formed in a group-discussion forum. Due dates will be announced in class.

### Online Quizzes

A series of short quizzes will be completed using the quiz feature of Blackboard. These are individual assignments. The timing of these quizzes will be announced in class.

# Term Project

## Introduction

Answer the following 9 questions for a company. The choice of company is up to you. However, you should avoid firms in the airline industry and personal computer manufacturers since many of the classroom examples will involve these companies. Although this assignment is not due until late in the semester, you should begin to work on it immediately. Ideally, responses to questions will be prepared as we cover background material throughout the course.

## Recommended Information Sources

Research Insight (RI).

This database from Standard & Poor's offers up to 20 years and up to 48 quarters of historical financial information on public US and Canadian companies. Files containing key variables extracted from RI are available on Blackboard.

SEC's Edgar Database

The Securities Exchange Commission (SEC) (<http://www.sec.gov/edgarhp.htm>) maintains a database of SEC filings by public companies. The 10-K reports contain much of the same information found in annual reports and will be the most useful for this assignment

Yahoo!Finance Company and Fund Index. Offers company profiles, financial information, and links to a range of resources. (Start with the "Profile" link.) <http://biz.yahoo.com/i/> Other major web portals such as MSN Money (<http://moneycentral.msn.com/home.asp>) offer similar resources.

SDSU maintains license agreements with additional business database vendors that you may find useful for this project. A complete list of the databases is available on the library's web page: <http://infodome.sdsu.edu/research/databases/business.shtml>. Mergent Online and Factiva offer company-level financial information.

## Term Project Questions

- 1 Identify the subject of this report by company name and location.
- 2 Identify the firm's primary industry by name, its Standard Industrial Classification (SIC) code, and its North American Industry Classification System (NAICS) code.

Sources of information

- RI
- OSHA's search page for SIC codes (<http://www.osha.gov/oshstats/sicser.html>)
- U.S. Census Bureau's site on the North American Industry Classification System. Includes listings of NAICS codes and a history of its development. (<http://www.census.gov/epcd/www/naics.html>).

- 3 Describe the firm's customers (Households, businesses, schools, governments, etc.) To what extent does the company depend on international customers?

Sources of information

- Company's web site and Annual Reports, 10Ks

- 4 What are the major determinants of demand for the firm's primary product? Explain your choice of variables. If necessary, describe how determinants differ across customer segments. What observable variables might this company use to detect changes in these determinants of demand? (Observable variables are measures that can be tracked over time to detect changes in demand conditions. Be specific.) You should also determine if sales are cyclical and/or seasonal. To determine if sales are cyclical, examine the pattern of company sales over the business cycle. (If appropriate, discuss the share of non-US sales in your interpretation of the plot.) To determine if sales are seasonal, plot quarterly sales data.

Sources of information

- RI
- Company's web site and Annual Reports
- Trade organizations:  
[http://www.yahoo.com/business\\_and\\_economy/organizations/trade\\_associations/](http://www.yahoo.com/business_and_economy/organizations/trade_associations/)
- GDP data are available from the Federal Reserve Economic Database (FRED)  
<http://research.stlouisfed.org/fred2/>

- 5 Recall that price elasticity is a function of (1) the number of available substitutes, (2) the price level relative to customers' budgets, (3) and the durability of the product. Describe these factors for the firm's primary product. Based on this analysis, does the firm face elastic or inelastic demand with regard to its primary product?

- 6 How would you describe the market structure of the industry in which your firm operates? To arrive at an answer you should discuss (1) the number of competitors, (2) product similarity, (3) barriers to entry, and (4) the importance of non-price competition. (Be sure to define the geographic nature of the market. Is the market best described as local, national, or international?) How much pricing power does the firm have? Are economies of scale a barrier to entry in this industry?

Sources of information

- RI
- Factiva, Mergent
- Company's Annual Report
- Concentration Ratios from the 1997 Economic Census:  
<http://www.census.gov/epcd/www/concentration.html>

- 7 Calculate the company's sales and profit growth rates for (1) the past year and (2) the past three years. Do the same for the firm's rivals (firms with the same industry classification). Has the firm's growth rates matched its rivals? Summarize the company's performance relative to the rivals?

Sources of information

- RI - Use the variables "Net Sales" and "Net Income" for revenue and profit.
- Annual Reports

- 8 Has the Department of Justice or the Federal Trade Commission (FTC) taken action recently against this firm? Report any major findings. (If you conclude no action has been taken, explain your search procedure.)

Sources of information

- Both the Department of Justice (<http://www.usdoj.gov/atr/index.html>) and the FTC (<http://www.ftc.gov/ftc/antitrust.htm>) provide information on recent actions. Search by company or industry name.

- 9 Has Congress recently passed legislation that affects this firm? Is any legislation pending? (If you conclude no legislation is pending, explain your search procedure. Since legislation is not specific to a company, conduct your search using industry or product keywords.)

Sources of information

- Thomas Legislative Information on the Internet <http://thomas.loc.gov/home/thomas2.html>. You can search for keywords or by subjects under the section: Bill Summary & Status.

**A note on documentation**

You should document print and online information sources. No one formatting style for online sources is universally accepted but you can use the following examples as guidelines. You can also find more information on the SDSU library web page (<http://infodome.sdsu.edu/research/guides/cite.shtml>).

Examples:

Author. (Year). Title, Type of medium. Publication. [Protocol]. Available: Site [Access date].  
 Pine, Art. (1998, August 8). U.S. Creates Jobs at Moderate Pace in July [Online]. Available:  
<http://www.latimes.com/HOME/NEWS/BUSINESS/t000072187.html>.

BankAmerica (1998) 1997 Annual Report. [Online]. Available:  
[http://www.bankamerica.com/batoday/annual\\_tos.html](http://www.bankamerica.com/batoday/annual_tos.html).

<b>Tentative Schedule*</b>
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<b>January 23</b>	Topics: (1) Introduction to managerial economics Reading: Chapter 1
<b>January 30</b>	Topics: Marginal analysis: Rules of derivatives, derivatives and slopes, applications in economics Reading: Chapters 2, 2A (pp. 64-71) Text problems: Chapter 2 (1, 4, 9, 12, 14, 15)
<b>February 6</b>	Topics: (1) Demand theory; (2) Demand functions Reading: Chapter 3
<b>February 13</b>	Topics: (1) Elasticities; (2) Price elasticity and revenue Text problems: Chapter 3 (1, 2, 3, 4, 6, 8)
<b>February 20</b>	Topics: (1) Pricing; (2) Price discrimination Reading: Chapter 4 pp.134-152 Text problems: Chapter 3 (13, 14)
<b>February 27</b>	Topics: Demand theory continued

<b>March 6</b>	Topics: (1) Production theory: Production functions, law of diminishing returns, short-run and long-run production decisions Reading: Chapter 6 pp. 214-238, 242-244 Text problems: Chapter 6 (1, 5, 7, 12, 13)
<b>March 13</b>	Topics: Production theory: BLS statistics on US productivity, international comparisons
<b>March 20</b>	Midterm Exam
<b>April 3</b>	Topics: Cost concepts for decision making: Measurement of short-run and long-run costs Reading: Chapter 7
<b>April 10</b>	Topics: (1) Economies of scale and scope; (2) Learning curves; (3) Transfer pricing Reading: Chapter 7A Text problems: Chapter 7 (1, 3, 5, 11, 15(a,b,c)) Chapter 7A (1, 2)
<b>April 17</b>	Topics: Market structure and pricing: Structure-conduct-performance paradigm, characteristics and price determination by market type Reading: Chapter 10 Text problems: Chapter 10 (4, 5, 6, 7)
<b>April 24</b>	Topics: Market structure and pricing cont. Reading: Chapter 11 Text problems: Chapter 11 (1, 3, 11)
<b>May 1</b>	Topics: Oligopoly Reading: Chapter 12 pp. 469-480, 487-499 Text problems: Chapter 12 (1, 2)
<b>May 8</b>	Topics: Game Theory Reading: Chapter 13 pp. 514-532, 541-551 Text problems: Chapter 13 (1, 5, Disc Q)  Term Project Due
<b>May 15</b>	Final Exam 10:30 am - 12:30 pm

\* Changes, if any, will be announced in class.